

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Zhonghai Investment Holding Group Co., Ltd.

HONG KONG, 26 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Shandong Zhonghai Investment Holding Group Co., Ltd. (“SZIHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Binzhou Economic and Technological Development Zone (“Binzhou EDZ”), namely the Management Committee of Binzhou EDZ (“Binzhou EDZ MC”), would provide very strong support to SZIHG if needed, in light of its direct full ownership of SZIHG, SZIHG’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction in Binzhou EDZ, Binzhou City (“Binzhou”), and the linkage between the Binzhou EDZ MC and SZIHG, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if SZIHG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that SZIHG’s strategic importance would remain intact while the local government will continue to ensure SZIHG’s stable operation.

Key Rating Rationales

Government’s Ownership and Supervision: The Binzhou EDZ MC, the sole shareholder and the actual controller of the company, directly holds the full ownership of SZIHG. The local government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the local government has formulated a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position.

Strategic Importance to Binzhou EDZ and Strategic Alignment: SZIHG, as the most important LIDC in Binzhou EDZ, is mainly responsible for the infrastructure construction within the region, with a strong regional franchise advantage. It is also engaged in leasing, commodity sales, apartment management service, etc. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: SZIHG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. We believe the government support will remain intact given the company’s strategic importance

in Binzhou EDZ. Between 2021 and the first eight months of 2023, SZIHG received certain financial subsidies from the local government. Over the same period, the company received asset injections in the form of operation rights and equity transfers.

SZIHG's Financial and Liquidity Position: SZIHG's total asset grew to RMB20.4 billion at end-August 2023 from RMB14.9 billion at end-2021, as the company actively participated in Binzhou EDZ's infrastructure development. Its total debt continued to grow in the past few years and reached RMB6.8 billion at end-August 2023 from RMB3.8 billion at end-2021. The company's financial leverage, as measured by debt/capitalization, was at a manageable level of 44.4%-50.4% between end-2021 and end-August 2023.

The liquidity of SZIHG was weak. At end-August 2023, SZIHG had unrestricted cash balance of RMB134.2 million, compared with its debt due within one year of RMB878.6 million. Nevertheless, its short-term borrowings (RMB100.0 million) are expected to be roll overed. In addition, SZIHG has accesses to bond issuance and non-traditional financing, to support its debt repayments and business operations. Still, successfully rolling over the short-term borrowing, obtaining additional financing channels or government support are important for the company to maintain its liquidity.

Economy and Fiscal Condition of Binzhou EDZ: Binzhou EDZ was established as a provincial-level economic and technological development zone in 2001 with the authorization of the Shandong government, and was upgraded into a national-level economic and technological development zone in 2013. Binzhou EDZ's economic growth rate fluctuated in the past few years, owing to Covid's disruption, which was 2.9%, 6.8% and 4.1% in 2020, 2021 and 2022, respectively. Its GDP amount reached RMB17.2 billion in 2022. Binzhou EDZ focused on the development of four major industries in recent years, namely high-end equipment, new energy and materials, IT and modern service industry.

The Binzhou EDZ government's aggregate fiscal revenue is mainly derived from budgetary revenue and transfer payment from higher government, while its government fund income is very limited. The Binzhou EDZ government's budgetary revenue decreased to RMB1.8 billion in 2022 from RMB2.0 billion in 2021, due to the large-scale value-added tax credit refund policies to support the economy. The transfer payment from higher government remained stable at RMB0.9 billion in the past few years. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 192.0% at end-2022 from 122.6% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

We would consider downgrading SZIHG's rating if (1) there is perceived weakening in support from the local government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the local government's ownership of SZIHG, or (3) there is a downgrade in our internal credit assessment on the local government.

We would consider upgrading SZIHG's rating if there is an upgrade in our internal credit assessment on the local government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this SZIHG's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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